Grossman, Adam Ch. 7 Bankruptcy — Case No. 10-19817-MLB

2nd AMENDED Statement of Financial Affairs
Attachment To Question No. 8

Date of Loss: 12/14/2010

Description of Circumstances:

During divorce proceedings in 2010, Debtor's ex-wife submitted claims in King County Superior Court that $255,000 disbursed from the Terrington Davies Tanager Fund Limited Partnership by the general partner on May 20, 2010, was community property money while the Debtor who was the Director of Trading for the then-general partner testified that the funds belonged to other investors. An order of the Washington State Superior Court made a finding of fact that a distribution of funds out of the Limited Partnership belonging to other people totaling $255,000 was community property belonging to the Debtor and the Debtor's wife.

Loss #1: Ex-wife was credited $255,000 of community assets to balance incorrectly alleged distribution of non-existent community assets from limited partnership that were the property of other investors prior to the finding of the Superior Court. Loss: $125,000 of actual community property that would have otherwise been divided.

Loss #2: Debtor was credited with $255,000 of incorrectly classified non-existent community assets that were the property of other investors prior to the finding of the Superior Court. Loss: $255,000.

Loss #3: As Debtor is probably the only person among any of the associated parties (other than costly accountants) who has the knowledge to prepare P/L statements of many thousands of cash-settled index option trades, Debtor made an offer, which was accepted, to prepare one single report of the preliminary financial statements for the Terrington Davies Tanager Fund LP, gratis. Debtors pre-preparation represents approximately 80% of the total work required that has traditionally then been completed by Peterson and Sullivan LLP to finalize the financial statements but the new general partner may use other accountants. Financial statements are a necessary prerequisite to preparing K-1 tax forms for limited partners and this has typically been done in the summer.

To reflect the ruling of the Superior Court that the funds distributed in May, 2010, from the Limited Partnership belonged to the community and not the other investors, entries to the general ledger must account for the change of "fact" and the Debtor has participated in limited discussions with Peterson and Sullivan. However, the adjusting account entries necessary to be consistent with the ruling of the Superior Court will ultimately be the judgment of the new general partner likely in consultation with accountants and lawyers of their choice. While the decision of the new general partner is speculative, the accountants at Peterson and Sullivan suggest the most accurate – and possibly only – corrective entry to account for the distribution of community property in the amount of $255,000 when no (material) amount of community or separate property existed in the partnership at the time of the distribution is: credit cash account $255,000, debit accounts receivable from Jill Borodin and Adam Grossman community property. Likewise, the corrective entries for funds deposited from Peter Zieve and Lyman Opie which can be inferred that the Superior Court found were not used to fund the May 20, 2010, purchase are: debit cash $120,000, credit accounts payable Peter Zieve $120,000; and debit cash $135,000, and credit accounts payable Lyman Opie $135,000. Thus, before closing the Fund, the remaining non-zero capital accounts may be,

Account	Amount
Debtor/ex-wife Community A/R	$255,000
Peter Zieve A/P	-$120,000
Lyman Opie A/P	-$135,000

and these three balance sheet accounts would need to be zeroed out whether by agreement or through litigation prior to closing the business. Loss: $100,000 (guess).[1]

#4: Cost of Litigation. Highly variable. Loss: $100,000 (guess).[2]

Value of Loss:

$125,000 (Loss #1)
$255,000 (Loss #2)
$100,000 (Loss #3)[1]
$100,000 (Loss #4)[2]
=======
$580,000 Total[3]

Unknown outcome.

[1] Placing a valuation on the loss to the Debtor cannot be done accurately depending on how the community A/R is treated and ruled upon based on the Divorce Decree. If Debtor's Chapter 7 proceedings are completed, there will likely be no effect on debtor. If Debtor's motion to convert to Chapter 13 under a 100% Repayment Plan is granted the losses could vary from $0 to $255,000 depending on the interpretation of community A/R created by the Superior Court ruling.

[2] The cost either to correct the error made by the Superior Court or to enforce the collection of an account receivable that is created by the Superior Court's error will not be insignificant. Since attorney's fees are awarded – nearly universally and in full – to the prevailing party, this range of cost could vary widely.

[3] Variation as noted.

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